# New Investors: 3 Mistakes That Could Cost You Big

## Description

If you're a new investor, you'll probably get a lot of advice and information on which stocks to buy and how to turn a quick profit. What you usually don't hear about nearly as often are the pitfalls and mistakes to avoid. Below are three common mistakes that you'll want to avoid to help keep your money safe.



**Believing the hype**

There's no shortage of "hot buys" out there that can make you believe a stock is only going to rise in value. After all, it's done so in the past, so it's likely to continue to do so. Except that logic is shaky at best and can leave you with a nasty surprise at the end. Investors need only to look so far as the Bitcoin bubble that burst earlier this year as proof of that. The digital currency is currently trading at less than half of the US$20,000 that it peaked at in December of last year, and with multiple sites banning ads related to cryptocurrency, it's harder than ever for Bitcoin to generate the excitement than made it one of the hottest buys of 2017.

More recently, marijuana stocks have taken off in hype; we have seen **Canopy Growth** (TSX:WEED )(NYSE:CGC) more than double in 2018. The company has been expanding in many markets around the world, as it hopes to dominate global pot sales. But with Canopy Growth trading at more than 150 times its sales, investors are paying a big premium to own a stock that still has many question marks. Its market capitalization is even higher than some blue-chip stocks, as investors have become euphoric on everything to do with pot.

The problem, however, is that the higher the stock goes, the further it has to fall down in price when conditions turn bearish.

**Relying on stop losses**

A stop loss is a good tool to protect yourself from a sell-off, but it isn't foolproof. Shareholders of **Home Capital Group** (TSX:HCG) would have seen little help from a stop loss back in April of last year when the stock went over a cliff when it was revealed that the company had misled investors. On April 25, the share price had closed at $17.09, but the following day it would open at only $10. A stop loss of say $15 or even $13 would have been useless, as sellers would have incurred much bigger losses than anticipated.

**Trying to read and predict charts**

There are useful indicators in the world of technical analysis that can help you gauge when a stock has been over or undersold, but trying to rely on that information to predict chart movement can be dangerous. When you're looking not at a stock's fundamentals or its future growth, but on its price movement, this is often what people refer to as speculative buying.

People have various strategies to try and predict what shape will be made or what pattern will be next, but when big news hits, it breaks all of these theories and strategies. I've yet to see the technical indicator that can predict the massive sell-offs that we saw with both Home Capital and Bitcoin.

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1. Investing

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3. TSX:WEED (Canopy Growth)



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